

Vimeo Q4'22 Interactive Earnings Video Transcript

February 27, 2023

Safe Harbor

Hi, I'm Ken Goff, Vimeo's new Head of Investor Relations. Thank you for watching Vimeo's Q4 2022 interactive earnings video.

Before we begin, a few comments: First, Vimeo's Q4 earnings video will be available on the Vimeo Investor Relations site.

Second, we will discuss Vimeo's outlook and future performance. These forward-looking statements typically may be preceded by words such as "we expect," "we believe," "we anticipate" or similar such statements. These forward-looking views are subject to risks and uncertainties and our actual results could differ materially from the views expressed in this video.

We have also provided information regarding certain key metrics and our non-GAAP financial measures, including certain forward-looking measures. These should be considered in addition to, and not as a substitute for or in isolation from, GAAP measures.

Additional information regarding Vimeo's financial performance, including reconciliations with comparable GAAP measures, can be found in our earnings release and in Vimeo's filings with the SEC, as well as in supplemental information posted on the Investor Relations section of our website.

With that, I'll turn it over to our CEO, Anjali.

Anjali Sud

Hello and welcome to Vimeo's fourth quarter earnings. Like last quarter, this is an interactive update made using our product. We hope you click and engage in whatever way you find useful.

As we navigate the current environment, we see evidence that the tailwinds for video remain strong. Over 80% of all consumer internet traffic is now video. The first video-only social platform, Tik Tok, has now surpassed every other app in engagement with over 1 billion monthly

active users. Vimeo's thesis is that these consumer trends will translate to business, and transform the way we work. We've built our platform steadily over the last few years to power this transformation. And we see validation of this strategy in our Vimeo Enterprise solution. Launched in August 2019, Vimeo Enterprise is now over 15% of total Vimeo bookings, and in Q4 it grew 59% year-over-year. Within that, the number of seats being used by those customers grew 119%.

This growth is happening because video is often a better medium for business communication. Not just synchronous communication in the form of video calls and meetings, but asynchronous communication. Things like a recorded message from your CEO, or a marketing ad, or an internal demo or training. With distributed teams, shortened attention spans and Gen Z now entering the workforce, video is simply a more engaging and authentic way to get critical information out there. The more nuanced, complex and high stakes the communication, the more video trumps long emails, pages of documentation, and inefficient meetings. And the more essential Vimeo's product becomes.

We experienced this last month when we held a company-wide kick off for our 2023 strategy. More than 75% of our distributed team joined the event live through watch parties across 6 countries from Ukraine to Israel to Singapore. We had nearly 3,000 real-time reactions and chat messages, hundreds of votes on our polls, and the average employee watched nearly three full hours continuously. You can just check the LinkedIn posts of our employees after to see how energized they were. This is the power of video: to inform, engage and inspire.

Looking back at 2022, we started the year with an ambitious plan that was constrained by bigger hurdles than we anticipated-- the biggest being a material slowdown in post-pandemic demand. Despite this, and despite plenty of things we wish we'd executed on better, we had 3 critical wins that highlight our long-term opportunity, which remains intact and I think more relevant than ever.

First: we continued to scale Vimeo Enterprise, which we expect to be the biggest driver of our future growth. Vimeo Enterprise revenue grew 69% year-over-year in 2022, a 6 times increase from 2020. Bookings is our leading indicator of revenue, and Vimeo Enterprise bookings grew 53% in 2022, with growth accelerating in each of the past two quarters. Within that, Vimeo Enterprise saw average subscriber growth of 64% for the full year, indicating that businesses see the need for video and are choosing Vimeo to meet that need. Once we land these

customers, we also tend to see them expand their use of our services more. In the fourth quarter we saw strong and growing engagement among our Vimeo Enterprise customers, with monthly active team members growing 99% and team seats growing 119% year-over-year. Net revenue retention for Vimeo Enterprise was once again over 100%.

Second: in 2022 we gained traction among the largest enterprises, becoming the video platform of choice for some of the most recognizable brands in the world. Customers like American Airlines, Expedia, Gap, Lowe's, Rite Aid and The Coca-Cola Company. These customers are using Vimeo to create content for their website and social media, to stream town halls and events, to share recordings of trainings and demos, and to securely host all their content in one centralized and searchable place. For example, a Fortune 500 retailer who originally signed up for Vimeo Enterprise in 2021 increased their contract size for 2022 by 225%, and is now using Vimeo to host thousands of videos across all of their brands.

Third: in 2022 we improved the efficiency of how we operate. This included adjusting our headcount, streamlining marketing spend, and choosing fewer, more targeted and more impactful investments. As a result we were able to deliver better than planned positive adjusted EBITDA and Free Cash Flow for the last 2 quarters. More importantly, we are raising the bar for a good investment at Vimeo, and setting ourselves up for sustainable profitability and margin improvement going forward.

We also improved our efficiency while continuing to build innovative new products. Take for example, Interactive Video, which you're experiencing right now. Think about how powerful it will be in the future for every new hire to be trained on the job with interactive video versus a training manual. Or for every marketing message to have an instant feedback loop and ability to buy. This is a capability that did not exist in the market at scale, before Vimeo. We're proving that we can exercise cost discipline while innovating in video, and are committed to executing that balance consistently in the future.

Looking forward, I'll sum up our 2023 strategy in three words: Innovation through Simplicity. Vimeo has built an incredible suite of products and a massive user base. We have a lot of power under the hood, and our task is now to expose that power in a viral and scalable way through our product, our website, our salesforce and our brand. So in 2023, innovation will come not from launching a bunch of new features, but from making the tools we have easier to discover and use. Innovation will come from simplifying video, and Vimeo.

First we will focus, and obsess, on 2 goals: get Self-Serve back to growth, and sustain momentum on Vimeo Enterprise. With Self-serve, we're focused on reinvigorating top of funnel demand by better attracting businesses and better engaging and converting the businesses who are already coming to us for free. Our conversion of free to paid customers is lower than best-in-class SaaS companies, and we believe we can get to best-in-class by making foundational improvements in our website, pricing and product experience.

With Vimeo Enterprise, we're focused on continuing to increase awareness of our offering, win deals and expand organically within the world's largest companies. In particular, we're doubling down on two use cases where we see the most traction: marketing and employee comms.

Marketing is about helping businesses create and share videos to reach and engage their customers. This includes videos for social media or your website, as well as hosting webinars and events. Employee comms is about using video to inform, motivate and connect with distributed teams. This includes recording video demos and messages instead of holding a meeting, training your salesforce using interactive content, and livestreaming town halls. These two use cases made up over 60% of the Vimeo Enterprise pipeline generated in the second half of 2022, more than double the dollar amount from the same period last year, and lend themselves to natural expansion into other use cases and departments in the future, from customer support to sales to R&D.

Next we will orient the majority of our 2023 roadmap to unify our current product suite. We've already built what I believe is the strongest suite of video capabilities in the market. But many of our products are presented to users today as disparate experiences. For example, today we have one mobile app to create videos and a separate mobile app to manage and publish those videos. This leads to unnecessary friction, and makes it harder for users to discover and adopt the full breadth of our offering. In 2023 we will be deprecating legacy products and reducing the redundancies and friction in our users' experience, so they can use Vimeo as a single interface to do anything with video.

Finally we will continue to both streamline our investments and improve our value proposition for our target customers. We did this effectively in 2022 and are well positioned to do the same in 2023.

I am tremendously excited about the value we will unlock by simplifying Vimeo. We are simplifying our platform, our marketing, our operations...even our disclosures. I believe that

making Vimeo a more focused and unified company will unlock growth and value for our customers and our shareholders.

It's also important to recognize that 2023 is a transitional year for Vimeo. It's still very early days in terms of where video communication can go, particularly in the business world. And I am confident that Vimeo's platform and products can be part of facilitating this evolution. So while we're expecting to generate positive adjusted EBITDA in 2023, we're also making a conscious choice to invest in getting back to growth, rather than maximize near-term profitability. We see plenty of inherent profitability in our current business. With gross margins in the high 70% range, we have the flexibility to adjust our model to produce double-digit EBITDA margins. But we believe that making disciplined investments in Self-Serve and Vimeo Enterprise now is the right path to achieve both double-digit revenue growth and double-digit EBITDA margins in the future.

This is a choice, predicated on our view that post-pandemic demand is obscuring normalized growth trends for Self-Serve, and supported by the macro tailwinds in video. We will execute on some basic fundamentals in the next few quarters to validate this view, and continue to reassess and raise the bar for every investment as the year progresses. As we sit here 2 months into the year, we have every reason to believe this choice is the right one. We have an innovative set of products that can uniquely serve a growing need for more modern, human communication. We have a focused strategy that is self-funded and based on 18 years of serving millions of customers with video. And we have the vision, drive and experienced management team in place to execute.

Thank you again for joining today.

Gillian Munson

Welcome to the financial section of our Q4 investor update.

We have lots to cover today including our:

- Q4 and 2022 financial results,
- some important investor relations disclosure changes
- and our Q1 and 2023 outlook

As this is an interactive video, you can jump to results, disclosure changes or outlook by clicking on these buttons.

Just a reminder, all the financial metrics I talk through, except for revenue, will be discussed in non-GAAP terms unless noted otherwise.

Q4 revenue was \$105.6 million, down 1% year-over-year, though on a constant currency basis would have been up 2%. GAAP net loss was \$5 million and we delivered an adjusted EBITDA profit of \$6.5 million.

We generated \$2 million dollars of free cash flow in Q4 and ended with a cash balance of \$274 million.

For the full year 2022, revenue was \$433.0 million, up 11% year-over-year, GAAP net loss was \$80 million and our adjusted EBITDA loss was \$8 million.

Turning to our investor relations program, we are enacting some changes starting with this release.

First, and perhaps the biggest change in 2023 is that we are adjusting our disclosed revenue splits. I'll spend a little more time than I usually do on walking through the details of our product lines on this call. If you would like to skip forward to our financials please feel free to skip ahead.

While we had previously grouped our revenue by whether it was generated through a Self-Serve or Sales-Assisted motion, we will now report along the following categories: Self-Serve & Add-Ons, Vimeo Enterprise, and Other. This is better aligned with how we have organized and focused internally in 2023, and will help us more clearly delineate between revenue from our different strategic investment priorities.

Diving into each category,

Self-Serve & Add-Ons includes the revenue generated from the subscription tiers sold directly via our website, and any add-ons tied to those subscriptions. These subscription tiers range from Starter to Standard to Advanced and let customers create, edit, host, manage and share videos, with the ability to add on additional bandwidth over a certain cap. We have 1.5 million paying Self-Serve and Add On subscribers including everyone from consumers to video pros to SMBs and large corporate clients. This category is our biggest revenue stream at 70% of 2022

revenue, with ARPU of around \$200. Aside from being a major driver of Vimeo's scale, we believe this part of the business will continue to generate profits that can sustainably fund our future growth, particularly in Vimeo Enterprise. This is also a key hunting ground for larger enterprise deals, as high usage in this category is often a strong signal of potential to upgrade and expand the use of our platform. In fact, in 2022 more than 60% of new Vimeo Enterprise clients migrated from Self-Serve.

Vimeo Enterprise will now be reported on its own. Exiting the year at around 10% of revenue and over 15% of bookings, it is our fastest growing product and the key focus of our strategic investments. Vimeo Enterprise is sold through our salesforce, and includes the same capabilities of our Self-Serve and Add-Ons plus enterprise-grade features such as advanced security, custom user permissions, single-sign on for employees, interactive video, and marketing software integrations. ARPU here rises to an average of around \$20,000, with a range of deal sizes that can reach up to seven figures. Going forward, we expect Vimeo Enterprise to grow steadily as a percentage of our bookings and revenue.

Finally, we are combining our other products and legacy acquired businesses into one line that will now be reported as Other. Other currently makes up around 20% of total revenue, with that percentage expected to decline over time. About 60% of the revenue in this grouping comes from OTT, our make-your-own streaming app solution. Also included in this group are legacy products that were previously acquired for technology and talent that have since been integrated into the Vimeo platform. Here, our focus is continuing to capture value from remaining customers and efficiently acquire new customers, without significant incremental investment.

Second, to add further transparency to our disclosures, we will be reporting Bookings, Subscribers and ARPU for each of these new categories, which should give more clarity on the underlying drivers of revenue including the important leading indicator of bookings.

We believe we can provide more clarity into our business through greater transparency. For historical context we are providing data back to 1Q'20 for all these items.

And **finally**, we are going to stop reporting monthly metrics in 2023. We believe that our updated quarterly disclosures provide a considerable amount of incremental transparency into the business with a particular focus on forward looking metrics with bookings, which will provide a more helpful view for investors than monthly reporting.

Now moving to the quarter.

We will focus on Q4 on this call and have provided full year financials in our disclosures and in a sub video here.

Q4 bookings were up 2% year-over-year, a sequential improvement in growth rate driven by increases in bookings growth rate in all three product categories versus Q3.

Vimeo Enterprise bookings grew 59% to 16% of our total Q4 bookings and showed strong underlying metrics: subscribers grew 38%, monthly active team users growing almost 100%, filled seats growing 119% year over year, a NRR once again over 100% and our best Vimeo Enterprise win rate of 2022 in Q4.

Self-Serve & Add-Ons bookings were down 5% year-over-year in the quarter, and represented 67% of our total bookings. Top of the funnel demand remains a challenge post pandemic and we are focused on the fundamentals of our marketing, product, website and pricing to get this revenue line back to growth, while in the meantime it will continue to serve as a feeder for Enterprise.

Other bookings were down 3% in Q4, OTT benefited from a large customer renewal and showed growth offset by ongoing wind downs in other products.

Moving over to revenue.

Q4 revenue was down 1% Y/Y, though on a constant currency basis it would have been up 2%.

Vimeo Enterprise grew 35% year-over-year to 10% of revenue. This was driven by subscriber growth of 38%, partially offset by a small decrease in ARPU of 5% due to mix in the quarter.

Self-Serve & Add-Ons, revenue was down 2%, with ending subs down 3% year-over-year to 1.5 million and a 1% decrease in ARPU, following the booking trends we've seen over the past couple quarters.

Other, which was 20% of revenue, was down 8% Y/Y.

Solid gross margin management enabled us to post a gross margin of 77% and grow gross profit dollars 2% year-over-year to \$81 million, even as overall revenue declined. Of the \$14M

swing in adjusted EBITDA year-over-year, improving gross margin contributed almost \$2M of incremental dollars.

We continued to gain efficiency with our operating expenses. We were able to reduce total operating expenses 14% year-over-year with savings in all three categories. Compensation was roughly flat year-over-year on a 1% increase in headcount, and non-compensation expenses were down meaningfully year-over-year.

Sales and marketing spend fell 10% year-over-year to 35% of revenue, largely due to a focus on getting a lot more efficiency from our paid marketing spend.

R&D was down 14% year over year to 21% of revenue due to a reduction in compensation related expense, as well as savings from more efficient hardware and software spend.

G&A was down 25% year over year to 15% of revenue. In G&A we did see some increase in compensation cost year-over-year due to the addition of new executives but other savings such as lower bad debt expense more than offset those increases.

Adjusted EBITDA profit of \$6.5 million in the quarter did have some benefits that may not be repeated in upcoming quarters, including a lower bonus payout given last year's performance, lower bad debt which we expect has now bottomed, and several other smaller items. All together, these comprised roughly half of our EBITDA profit for the quarter.

Finally on a GAAP basis a couple items to note. D&A, interest and tax together were essentially net neutral in the quarter.

Stock based compensation was \$12.1M, down 16% Y/Y and down 38% Q/Q. This was due to credits related to modifications made to certain outgoing employee grants. Excluding these, our stock based compensation has recently been running in the \$20M a quarter range. We expect that to be a peak level and that quarterly stock based compensation should start to trend down as our goal is to actively manage the impact of employee grants on net dilution at the company.

On a related note, we have moved to net settling most equity as it vests, utilizing cash to settle tax liability for our team vs. issuing additional equity. This is basically a form of buy back and,, we believe it to be a good use of cash given our healthy balance sheet.

Moving on to our outlook.

2023 will be a pivotal year for Vimeo.

It's worth noting some important progress that we believe will shine through in the numbers.

- 1) We expect to continue to grow Vimeo enterprise at an exciting rate,
- 2) in a challenging environment we plan to swing full year EBITDA from a loss to a profit as we drive efficiency in the business and
- 3) we expect that we will demonstrate the potential of Self-Serve & Add-Ons for profitable long term growth.

For 2023, we are expecting a mid-single digit percent decline in revenue. There are headwinds and tailwinds driving this.

On the headwinds side, our revenue is driven by bookings, typically with a 2 to 3 quarter lag. The bookings declines we experienced in 2022 will materialize in our P&L in 2023. In addition, due to our planned wind down of certain products in Other and ongoing top of funnel pressure in Self-Serve and Add-Ons, we expect overall bookings impact particularly in the first half will impact revenue as well.

That said, in the second half we believe we will see signs that our growth strategy is working. Our fundamental work on Self-Serve should start to be more apparent in those bookings, and paired with continued momentum of Vimeo Enterprise, our tailwinds should start to emerge more in our results, albeit with that lag between bookings and revenue trends we have discussed.

As for expenses we expect continued efficiency across all our spending in 2023.

Gross margin should be flat to slightly up thanks to a focus on efficiency.

On the operating expense side, we executed a RIF in Q1 which will start to show though in the financials more fully in Q2. There will be some offset early in the year from resetting our bonus in 2023 and the fact that not all exiting employees left immediately. As it relates to our non-compensation expenses we will continue to manage them with an eye to gaining efficiency

across the board. As Anjali mentioned, a continued investment in our B2B offering is embedded in this guidance.

Putting it all together we have a clear path to adjusted EBITDA profit in 2023 and we believe you should model it at \$5 to \$10 million, with higher profits later in the year than earlier.

As for Q1

In Q1, we currently expect revenue of at least \$100 million, and to post adjusted EBITDA of around breakeven, mainly due to the timing factors related to the phasing in of cost reductions I mentioned before. One note on our balance sheet, our bonus payout timing typically causes Q1 cash to decline and this is our expectation for Q123.

Vimeo's financial strategy is to keep sharpening our balance of being efficient and driving profits in a tough macro environment while we invest to grow. We'll measure our progress transparently in continued bookings momentum for Vimeo Enterprise and a bookings turnaround in Self-Serve & Add-Ons. As Anjali said, there is near-term profitability inherent in our model, and we have the flexibility to adjust our investments to get meaningfully more profitable if the growth we are looking does not materialize.

These options aside, our team is committed to making smart investments that we believe will set us up for sustained growth and profitability for years to come. The tailwinds for Video remain strong and we feel we are very well positioned to deliver strong returns in our market.

Thank you for your attention and we hope to see you for Q&A.

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

Q4 2022 Vimeo Inc Earnings Call

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Gillian Munson *Vimeo, Inc. - CFO*

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PRESENTATION

Operator

Good morning, and thank you for joining Vimeo's fourth quarter earnings live Q&A. We're excited to be here with you on video.

Before we begin, a few comments. First, this session will be recorded and available on the Vimeo Investor Relations site later today. Second, we will discuss Vimeo's outlook and future performance. These forward-looking statements typically may be preceded by words such as we expect, we believe, we anticipate or similar such statements. These forward-looking views are subject to risks and uncertainties, and our actual results could differ materially from the views expressed today.

We've also provided information regarding certain key metrics and our non-GAAP financial measures, including certain forward-looking measures. These should be considered in addition to and not as a substitute for or in isolation from GAAP measures. Additional information regarding Vimeo's financial performance, including reconciliations with comparable GAAP measures, can be found in our earnings release and Vimeo's filings with the SEC as well as in supplemental information posted on the Investor Relations section of our website.

With that, I'll turn it over to our CEO, Anjali.

Anjali Sud *Vimeo, Inc. - CEO & Director*

Hi, folks, and welcome to our fourth quarter Q&A. Last night, we published an interactive shareholder video that walks through our results and outlook. Once again, we use Vimeo's product to make our update fully interactive. We know it's earnings season and your time is precious, so you can click and navigate through the content instead of watching it linearly or just reading the transcript. We, of course, hope that this helps to demonstrate how video can make important communications more engaging and easier to consume.

So I'd like to highlight 3 things before we take your questions. First, we have great momentum in Vimeo Enterprise. Last quarter, bookings were up 59% year-over-year. Net revenue retention was again above 100%, and customer usage is looking very strong. We see Vimeo Enterprise as a big growth driver still in its early days. In under 4 years, we've built a business with a \$65

million run rate in bookings that's growing faster than the rest of the market. So we'll lean into this momentum in 2023 with our investments.

Second, we believe that by simplifying our product and focusing on the fundamentals, we can get self-serve back to growth on a more normalized trajectory than the past few years. Our line of sight here is getting clearer as we get past the COVID cohorts, and we expect far more visibility over the next few quarters.

And third, we're getting more efficient. This is our second straight quarter of positive adjusted EBITDA and free cash flow, and we entered 2023 with the flexibility to invest in growth while continuing to improve margins. This is a choice that we will keep assessing as we move through the year based on our results with the commitment to profitability in any growth scenario.

So with that, let's jump into questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Tom Champion at Piper Sandler.

Thomas Steven Champion *Piper Sandler & Co., Research Division - Director & Senior Research Analyst*

Hopefully, you can hear me. Two for me, please. Anjali, maybe on the self-serve side, given the outsized customer growth of 2020 and '21, help us understand the retention characteristics of these cohorts and kind of where we are through that process of anniversarying. And what does the path forward look like to get those cohorts back to stability and return the self-serve segment to revenue growth?

And then, Gillian, maybe one for you. We like the EBITDA guide for the full year. Curious if you could talk about the range of macroeconomic scenarios you're envisioning. And then balancing that, what are the key investments Vimeo needs to make in order to drive product growth?

Anjali Sud *Vimeo, Inc.* - CEO & Director

Sure. So look, on self-serve, we very much believe that there are good reasons to get that business back to growth. We were growing well pre-pandemic. And as you said, Tom, we have these quite large cohorts that are 3x larger than pre-pandemic that came in over the last few years. And they are retaining somewhat worse than what we've seen in the past, and that's largely because of the nature of those cohorts, but also because we've diversified our use cases.

In the last few years, we have gone from really being a pure-play hosting-only platform to offering our customers many different things. And so why we have a lot of confidence in our ability to grow is because when we look at the fundamentals, what we're seeing is the tailwinds for video are there. We have a great product that solves our customers' needs, particularly in the 2 use cases of marketing and communications. And we think that there -- we have clear levers between making our UX more simple, improving our website and our pricing, and getting better at marketing to these customers that have these use cases.

We think we have the ingredients to really return self-serve back to growth. That, coupled with coming out of the, sort of, just the time that -- as we come out of the pandemic, sort of gives us a sense that we have both the sort of natural subscription economics are moving in our favor, and that we can execute with the right growth levers. So that's kind of what I'd say there. And I'm sure, Gillian can break that down more.

Gillian Munson *Vimeo, Inc.* - CFO

Yes. So Tom, I think the thing I'd like to remember about self-serve is it is a classic subscription business, okay? And in classic subscription businesses, your first year and second year are the biggest deltas in retention, almost no matter what the product. And then you get out to 3 and beyond, and that starts to really be much more negligible in terms of the delta. So when you look at what we had in 2020 and '21 as a function of largely the pandemic, but also some of the trial work we did, you've got 2 years of pretty large cohorts on new.

By the time we get to the end of '23 and into '24, those folks will all be in 3 years plus and have a much lower swing factor on the business. And when we look at new itself, underneath it all, we see new as about a mid-teens grower. And so when you put it all together, you get the

company back to a place where it's more traditional where new is running in the 20-some-odd percent of your bookings and then renewal is the rest.

So I think that in any event, these cohorts that we had in 2020 and 2021 were going to have an outsized impact on the business, and we're seeing that. They were fairly unprecedented. And we're going to beat to the tail end of where those folks -- the folks that are staying with us are going to stay with us pretty sustainably over the longer haul.

Underneath that, and Anjali mentioned this, but I think it's really important to note, we see metrics in the business that point to that sort of mid-teens organic growth, paid MAUs, uploads. And as Anjali mentioned, the sources of those uploads is spreading out amongst our products. So uploads are up in the mid-teens, and now they're from almost 0 to 40% from all the new different products we've added to the mix.

So we feel good that underneath it all, there is a growth business there and that the last couple of years have been very clouded by those 2 cohorts. So that's the self-serve business. And that's why we fundamentally believe that it's a growth business and that when we kind of get through there, you're going to really start to see it in the numbers.

You also asked about EBITDA. We are committed to being a profitable business. We think it's really important. We've said many, many times the stability of our business and its balance sheet is important to us. And we really think as we work through this period we are in, having a stable balance sheet and putting more cash on the books is an important thing to do. We have been in a challenged top line environment for a while. So there's nothing super new in terms of macro sentiment in there given that we're already sort of dealing with those transitions.

And then your last question was key investments to drive profitability. We, as part of our 2023 planning, which really led us to the guidance we gave, decided to make some key choices. And that, in the interest of being a profitable growth business, which we think over the long haul is really our best way to create value, we are really conservatively investing in Vimeo Enterprise and getting self-serve back to growth and are -- have made choices to not invest in other less strategic areas.

Operator

Our next question comes from Brian Fitzgerald at Wells Fargo.

Brian Nicholas Fitzgerald *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

A couple I wanted to drill down on and maybe even follow-ups. Wonder if you could talk to on self-serve, any trends you're seeing at the top of the funnel a bit more about the opportunity around free-to-pay conversion, where you are today, maybe in relative terms versus best-in-class players? We read this in the letter. And any structural (inaudible) free-to-pay conversion versus other players in the market? And then maybe you can talk about the playbook? [How quickly do] you think [you can narrow the right answer?]

Anjali Sud *Vimeo, Inc. - CEO & Director*

Brian, I think on the -- your last question, you broke up a little there. Do you mind repeating it for us?

Brian Nicholas Fitzgerald *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

In the -- are there any structural inhibitors in free-to-pay conversion versus other players in the market? And what's your playbook, if there are, to closing that gap on free-to-pay conversion?

Anjali Sud *Vimeo, Inc. - CEO & Director*

Got it. Yes. So in terms of top-of-funnel trends, I think we've shared that, in 2022, we did get hit with a pretty meaningful decline at top-of-funnel demand around 30%, which obviously impacted our results last year and then flow through to revenue in 2023. We are seeing very early signs that, that may be getting better, still declining, but at a lower rate. And regardless, our strategy and plan for execution in 2023 doesn't require us to see a material change in top of funnel.

The reason is that there is enough demand where we believe that we can do a better job of bringing in qualified users. So these are businesses who are looking to use video either for marketing or internal communications, that the sort of addressable market of those folks and

how to reach them is large enough that we can funnel less marketing dollars in a more efficient way to bringing and attracting those customers.

And then we think we have the ability to improve conversion, both free-to-pay conversions, so better converting our free users who are giving us a signal that they should be getting value from our tools, as well as even just other traffic hitting the site, how can we better convert them. And the way that we'll look to do that is our website and optimizing our website and then our pricing and our packaging which, as you know, we have been working through. We've moved to a per-seat pricing model, which we think is the right one for Vimeo. And we see a lot of opportunity right now to test and optimize that model to drive improved conversion.

To the question of sort of best-in-class. I think generally, you can look at what other SaaS companies have done. There's no structural reason why we can't do those things. But just even forgetting that and putting that aside, if you go to the Vimeo website, we have a very broad set of capabilities that serve a very broad set of users. And one of the things we think is entirely in our control and is in line with our strategy of simplification is we think our products can do a better job of exposing what you can do on Vimeo. And we think we can provide a more targeted, focused experience for the right customers.

So I think what you're really seeing is sort of that. As part of a mix shift in Vimeo is sort of a natural sort of focusing on who's our highest value customer, let's make sure our pricing, our website, our product experience really speaks to those customers. And it's pretty basic blocking and tackling, but we have a new Chief Product Officer and a new Chief Marketing Officer, both of whom have done this many times. They are now 6 months in, and they're the ones really leading this initiative. And I think they have a lot of confidence that, just by blocking and tackling on the fundamentals, we should be able to move the needle.

Operator

Our next question will come from Brent Thill at Jefferies.

Brent John Thill *Jefferies LLC, Research Division - Equity Analyst*

Just on the enterprise opportunity, I know you mentioned it's around 10% of revenue, 15% of bookings. Maybe just paint a picture of the long-term aspiration. Anjali, where do you think the business can be? And maybe just walk through kind of what are the remaining roadblocks that

you need to get around for that business to really create the cadence and the predictability that you'd like to see?

Anjali Sud *Vimeo, Inc.* - CEO & Director

So I believe that the opportunity is pretty massive for Vimeo Enterprise. Every company, every team, every organization and every workforce in the world should be using video more than they are today. And I think the tailwinds are clear, certainly in our numbers. But just more broadly, if you look at what's happening around us, we have a new generation coming and entering the workforce. They are digitally native. They're spending their personal lives on TikTok. Attention spans are getting shorter.

And I think if you just take a step back, do we envision a future where we're going to train employees using documentation and manuals? Or are they going to use an interactive video? Are we going -- are marketing teams going to have to figure out how to create really compelling video content at scale every day? We really see that opportunity. And so our goal is every company, every workforce is using Vimeo to communicate better at work using the power of video.

Obviously, we have good momentum now. We're not there yet. But I think the good news is that from a product perspective, we put a lot of investment in the last few years in expanding our product suite. We do think we have a pretty strong product suite that is winning relative to others in the market today. It's one of the broadest suites. It has a good mix of helping companies do what they need to do right now while also being innovative and thinking about the future. And we're seeing that resonate with some of the largest companies in the world. So when I think about what we need to do now, it really is, I think, getting good at marketing and selling this product, increasing awareness so we're in the consideration set.

To this day, we still often are not in RFPs from some of the largest companies because they don't know and think of Vimeo as an enterprise solution. And then we absolutely need to get efficient and better at every sale, and generating pipeline, converting pipeline, all of your classic go-to-market enterprise SaaS muscles. I think we've made really good progress there, but there's still work to do.

And then just the very last piece I'd say is we did roll out a per-seat pricing model last year in Vimeo Enterprise that is resonating. But one of the things it does really well is it aligns our customer success with how we charge. And so ultimately, what we have to do is get really, really

good at making our customers successful, helping them realize the ROI from video, helping them track and measure that ROI and ultimately then monetizing that value. And those, again, sounds like fundamentals, but I think that's where we are. We're executing on the fundamentals. We have all the ingredients for success, and I think Vimeo Enterprise can be a very large, exciting business.

Gillian Munson *Vimeo, Inc. - CFO*

Yes. And I'll just add a couple of quick details. We mentioned in the call or the video rather, that we had our best win rate in Q4 in this business. As you know, we've revamped our sales force in 2022 and really started to see that momentum build in terms of productivity, win rate, et cetera, as we ended the year.

The second piece, and one of our favorite parts about our business model, is that self-serve continues to be the hunting ground for Vimeo Enterprise in a meaningful way. In the -- for the year and for the quarter, it was more than half of the leads that came in for that business came through our self-serve business. We continue to believe that self-serve is a very important piece of our -- of the puzzle of how you build this overall growth story.

Operator

Our next question will come from Justin Patterson at KeyBanc.

Justin Tyler Patterson *KeyBanc Capital Markets Inc., Research Division - Director of Internet and Media Equity Research & Lead Senior Analyst*

Great. Anjali, I'd like to go back to just kind of your theme for the year, innovation through simplicity. I know a lot of us have often thought of Vimeo as being much simpler, easier to use than a lot competitors. Just kind of talk through just what you see as the opportunity to simplify the Vimeo platform today? Are there some discoverability issues with the product? Are people just not realizing the full value of the platform? And then, Gillian, perhaps you could tack on to that, how you think of that influencing conversion rate over time?

Anjali Sud *Vimeo, Inc. - CEO & Director*

So I think Vimeo has always been, and what we do exceptionally well, is we make video easy and intuitive. We make really complex types of video far more accessible. That's always been our strength, and it continues to be our strength. Where I see an opportunity is, in the last few years, we have dramatically expanded what you can do on Vimeo. So for the first 10-plus years of our history, once you had a video, you could upload and host that video and embed it using Vimeo. We are still best in class at that, and we'll continue to advance to make sure we stay that way.

But now you can live stream an event on Vimeo. You can create a video. You can record a message. And then after you created that video, the things that you want to be able to do have changed and have evolved. And we have expanded our product pretty dramatically. And so I think the reality is that right now, it is too hard to discover the full breadth of what you can do on Vimeo today. And the way to solve that is much easier once you've already built the capabilities. We have all of the products in our suite. We need our UX. And the way you get into the product to be frictionless and to be sort of viral in its ability to help you discover what you can do. And some of that is just truly removing steps in the process, like true simplification. Some of it is actually just being smarter in our data, using AI, to be able to say, okay, we know what kind of a user you are. What's the next best action? What's the next thing we're going to service?

So those are the types of opportunities we are laser focused on this year. And we think there's a lot of very sort of near-term improvements that we can drive without a significant amount of investment. We're not saying we need to go and launch whole new capabilities. We're really saying like we've built a lot of power under the hood and it's time to expose that power in a more simple way. And I will just say that doesn't mean we won't also look to innovate in certain areas, but innovation through simplicity, the reality is we know every customer we talk to still finds video too hard, every single one. You can be a market -- a marketing department of the largest company in the world with the largest budget, you can be someone who has been in the video business and creating video for 20 years, and you will still say it's way, way too hard. So we think that this sort of simplicity really is the way to open up video for the world.

Gillian Munson *Vimeo, Inc.* - CFO

And from a financial perspective, we -- our view is that we need to be building a growth -- a profitable growth business, right? So we need to have efficiency in our marketing dollars. Conversion is a huge piece of that. But it's also a huge piece of adoption. I like to joke that IR is going to become a profit center at Vimeo. And we're already on our way. I can tell you. We have customers that have come in because of our video.

Now we get a little aid in that from time to time. We have some special helpers who help us make sure we can use the product right. I want every CFO to be able to do a video of their earnings from their home if they need to or want to. And I think that's the kind of thing that feeds into conversion. And to build a profitable growth business, we want that conversion to continue to grow.

Now just as a reminder, our conversion, we've talked about this in the past, it is down from the pandemic, but up meaningfully from pre-pandemic periods. That's all about gaining the efficiency we want to gain to lead us to the point where we can drive the kind of EBITDA margins we think the company deserves.

Operator

Our next question will come from William Kerr at Cowen.

William John Kerr Cowen and Company, LLC, Research Division - Research Associate

Great. I had 2 quick ones. So stock-based comp stepped down nicely in 4Q. Are there any onetime callouts there? And then could you just talk about your philosophy around stock-based compensation and how investors should be thinking about that going forward? And then I have one other one.

Gillian Munson Vimeo, Inc. - CFO

Sure. Thanks, Bill. So stock-based comp has been running in and around \$20 million a quarter. And in Q4, it was meaningfully lower. That's the result of some exiting executives, where we've had to true up the stock-based comp for those grants. So there's a little bit -- a lot of Q4, and I think we outlined it in the prepared remarks, that is onetime in nature for that true-up, if you will.

But that said, I think there's a more important point on stock-based comp because stock-based comp ultimately reflects burn rate and dilution to our shareholders. And Vimeo, in 2022, had a bit of an unprecedented set of circumstances. The stock came down a lot. We were continuing to hire. We brought on a whole new management team. As we look at 2023 and beyond, we are very committed to limiting dilution to shareholders, and that's going to have a resulting impact on stock-based comp.

So \$20 million has been in and around where we are. I think that's sort of peak level, and that will start to come down over time at the company. One other note on dilution just generally, and we mentioned this in the video, but we have gone to net settle on when our employees' shares vest for tax purposes, which is, in a way, its own a buyback of sorts in the company. So again, very, very focused on dilution. It will show through in stock-based comp over time.

William John Kerr Cowen and Company, LLC, Research Division - Research Associate

Okay. Great. And then one more. Anjali, so there's been a lot of talk about AI and generative AI lately. And I was just hoping you could tell us a little bit about how Vimeo is using AI and how you think it might potentially impact the business over the long term.

Anjali Sud Vimeo, Inc. - CEO & Director

Sure. Well, I think like everyone, there's a ton of exciting opportunity in AI. But AI isn't a new thing for Vimeo. We've been very intentionally investing in AI over the last few years. I think we've built one of the strongest video AI teams, certainly in our industry over the last few years. And we do use AI in very tangible ways today. We use AI to optimize video delivery so that it can be scalable, efficient and high quality. We use AI to help customers create content, so you can use our mobile app and provide us with some images or video footage, and we will use AI to automatically create a video for you that you can then edit. And we do things now increasingly to help automatically sort of optimize content that comes through our system.

So an example would be, if you are -- you had a 3-hour meeting, and it's now automatically being recorded and archived on Vimeo, we will now use AI for enterprise customers, for example, to automatically suggest ways to chapter that content based on the information. So those are some of the ways today that we use AI. And it's really all designed to like how can we help you create content faster quality that's better quality? How can we help you get more from the information that's contained within a video? And then obviously, how can we help Vimeo operate in a better way?

On the topic of generative AI. Certainly, that's an area we're looking at, and we believe we're well positioned to play a role in and leverage for the benefit of our customers. One of the things that I think is really interesting is we do have one of the largest data sets in the world on video. Our embeddable player is out on the Internet. I think after YouTube, there is no other player that has as much video content. And so we think that we have some interesting assets and

opportunities to be able to play a really valuable role in the sort of ecosystem around generative AI. Certainly, it's early in video, but it's not that early, and we're taking a pretty proactive approach as we think about that.

Operator

(Operator Instructions) Next question will come from Danny Pfeiffer at JPMorgan.

Daniel Brian Pfeiffer *JPMorgan Chase & Co, Research Division - Research Analyst*

I'm on the call for Cory Carpenter. I just have a few quick ones. On trends, more broadly, in international markets, are you seeing any differences in the growth rates versus domestically? And then on the second question, you talked about one of the big use cases for Vimeo Enterprise being for marketing departments. And I was just wondering if you're seeing any slowdown there on customer acquisition or higher churn among those customers given the slowdown in marketing spend across the industry?

Gillian Munson *Vimeo, Inc. - CFO*

Thanks, Danny. Just -- I'll hit the international growth first. Our U.S. business grew faster than international markets, but not by a meaningful amount in the quarter. So that's where that sits. And we talked a little bit about currency's impact on -- or FX's impact on the financials, they would have been slightly better without that FX headwind.

Anjali Sud *Vimeo, Inc. - CEO & Director*

And then just to add on the global side. The need for video is global. We continue to see demand across countries and regions. Certainly, for Vimeo Enterprise, we see an opportunity to expand internationally and our -- we had planted a flag in EMEA and APAC, and we're seeing really exciting growth there, and we think we're just getting started as it relates to international expansion of our sales force.

On the question about marketing departments, it's interesting. We haven't seen any slowdown in demand for marketing departments given the need for folks to get more efficient. The hypothesis

that we would have, based on what we see is there's actually a greater demand for every marketing dollar to be -- to have an ROI.

And if video has higher clicks, higher engagements, is a better tool to acquire your customers, then actually the need becomes more valuable. Where it's tricky is if your value proposition and your price point isn't compelling. And we think we have the best value for money in the industry, right? And we've moved to a per-seat pricing model. We really have kind of taken the approach of, let's make it easy to start using video. You can start as a marketer on Vimeo for free. You can pay a couple of hundred dollars and start to realize the benefit of our tools. And then over time, based on your usage and what you're doing, we can turn that into a really meaningful relationship with you. And so we think that approach that we've taken is actually quite aligned with sort of macro desire to be more efficient.

One last thing I want to add is the other thing that we've certainly seen more momentum in the last couple of months has been one of the things we do is we can help consolidate multiple different video vendors because of the breadth of our solutions. And that can often be a way to save money. And we are seeing that sort of sale resonate with companies more and more. And we're sort of developing a tighter pitch around that and offering around that. But I think for both of those reasons, we are actually well positioned to be sort of a net benefit that many companies can embrace right now to be more efficient during this time.

Operator

And with that, it looks like there are no further questions. I would like to hand the call back to Anjali.

Anjali Sud Vimeo, Inc. - CEO & Director

Great. Well, I'll wrap I think something that I think is important for you all to know. The Vimeo team is pumped. Despite challenges and tough choices of late, we kicked off the year genuinely energized, and for 2 reasons: Because the tailwinds for video are strong, and we think we've got the best product for businesses to use video; and because our strategy is to simplify, simplify our products to make it easier for our customers, and simplify our business to make it easier for ourselves. Simplification is, I think, a powerful force and function for focus and efficiency. And we feel like we have the right tools to execute and delight our customers this year.

So thank you for your time, and we'll wrap by playing some quick footage from our company kickoff last month.

(presentation)

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